



PENHALLOW ASSOCIATES LIMITED
A Financial Knowledge Company



Equity Derivatives

Virtual Learning or Classroom Training

Duration 6 Hours

Course Price: On Request.

Location: (UK) For Virtual Learning Live Environment via Video Communication.

To book, or, require more information. Please contact Alan Penhallow; e-mail: alanp@penassco.co.uk Mobile: +44 (0) 7712086934.

This programme may be of interest to your colleagues.

www.penassco.co.uk

The goal of the course is to provide a comprehensive overview of the main Equity derivatives. The focus is on how each instrument works, the various ways they are used, how they are priced and risk-managed.

Agenda

Introduction

- Defining derivatives
- Their key characteristics and how they differ from the underlying or 'cash' instruments
 - Deferred settlement
 - Often 'partial'

The instruments

• Forwards and futures

- The similarities between 'Delta One' products
- Equity forwards
 - Key terms and applications – going long and short, leverage v hedging
 - Pricing and hedging – the hedge ratio ('Delta 1'), funding costs, dividends, **shorting and the fee**

○ **Contracts For Difference (CFDs)**

- Key terms – individual stocks and indices, contract size, the equity and interest 'legs', term - and applications
- Tax advantage
- Hedging and pricing

○ **Equity futures – e.g. stock index futures**

- Key terms – contract size - amount per index point, expiry dates, cash-settlement - and applications, speculation and hedging
- Pricing – in theory and practice, the link with ETFs
- The 'basis', how and why it erodes to expiry, how this affects hedges
- The Clearing House and risk management: the need for Variation and Initial margin

○ **Equity swaps**

- Key terms – contract size, the two legs - and applications, e.g. strategic and tactical switching
- Hedging and pricing
- Variations, including price-only, FX-quantoed, etc.

• **Options**

- Key terms – size, term, strike, styles – American and European and why there is less difference than you might expect
- Call and put expiry pay-offs and 'moneyness'
- Applications – e.g. fund managers, hedging, earning income via covered calls, collars and zero-cost collars
- The leverage of OTM options and speculation
- Time value and Intrinsic value illustrated
- Intuitive pricing of Time value illustrated via the costs of dynamic or delta hedging

- The different types of volatility – historic and implied – the VIX and some volatility trading strategies – straddles and strangles
- Option key risks – gamma, the change in delta, vega, the impact of a change in vol; others – theta and rho
- Other styles – e.g. Asian - and their attractions
- Overview of Barrier and Digital options, their key terms, applications in building structured products and their risks

Trainer Profile



Mike Stafferton

Mike has over eight years' in-house experience in Derivatives and Origination with what was a top Japanese Securities house and over 16 years' experience as an independent consultant in the capital markets and related areas. He has a particular focus on Securitisation and Basel/CRD. He is also an Associate of Moody's.

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